May 2018

THE FEDERAL ROLE IN A *social* FINANCE FUND

Standing Senate Committee on
Social Affairs, Science and Technology

The Honourable Art Eggleton, P.C., *Chair*
The Honourable Chantal Petitclerc, *Deputy Chair*
The Honourable Judith Seidman, *Deputy Chair*

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ORDER OF REFERENCE

Extract from the *Journals of the Senate* of Thursday, December 14, 2017:

With leave of the Senate,

The Honourable Senator Eggleton, P.C., moved, seconded by the Honourable Senator Fraser:

That the Standing Senate Committee on Social Affairs, Science and Technology, in accordance with rule 12-7(9), be authorized to examine and report on such issues as may arise from time to time relating to social affairs, science and technology generally, including:

(a) cultural affairs and the arts, social and labour matters, health and welfare, pensions, housing, fitness and amateur sport, employment and immigration, consumer affairs, and youth affairs;

(b) elements related to its mandate or to previous reports of the committee that are found in the ministerial mandates of the Minister of Canadian Heritage, the Minister of Employment, Workforce Development and Labour, the Minister of Families, Children and Social Development, the Minister of Health, the Minister of Immigration, Refugees and Citizenship, the Minister of Infrastructure and Communities, the Minister of Innovation, Science and Economic Development, the Minister of Science, and the Minister of Sports and Persons with Disabilities; and

That the committee report to the Senate no later than December 30, 2018.

After debate,

The question being put on the motion, it was adopted.

Clerk of the Senate
Nicole Proulx

COMMITTEE MEMBERSHIP

The Honourable Senators who participated in this study:

Art Eggleton, P.C., Chair
Chantal Petitclerc, Deputy Chair
Judith G. Seidman, Deputy Chair
Wanda Elaine Thomas Bernard
Fabian Manning
Marie-Françoise Mégie
Jim Munson
Ratna Omidvar
Rose-May Poirier
Nancy Greene Raine

Ex Officio Members:
The Honourable Senators:

Peter Harder, P.C. (or Diane Bellemare, or Grant Mitchell)
Yuen Pau Woo (or Raymonde Saint-Germain)
Larry Smith (or Yonah Martin)
Joseph Day (or Terry Mercer)

Other senators who have participated from time to time in the study:
The Honourable Senators Linda Frum, Diane Griffin and Percy Mockler

Parliamentary Information and Research Service, Library of Parliament:
Havi Echenberg, Analyst

Senate Committees Directorate:
Shaila Anwar, Clerk of the Committee
Tracy Amendola, Administrative Assistant

INTRODUCTION

On 14 December 2017, the Senate adopted an Order of Reference authorizing the Standing Senate Committee on Social Affairs, Science and Technology (or the committee) to examine and report on issues relating to social affairs, science and technology generally.

Under this Order, the committee undertook a study of a social finance fund, holding two meetings, on 14 and 15 February 2018. The committee heard from members of the steering group responsible for co-developing a Social Innovation and Social Finance Strategy with the Government of Canada (the Co-Creation Steering Group), created in August 2017.

Among this group's three priorities is "access to the capital needed to fund, replicate and expand the reach of social innovation and social finance projects." [1] The committee's study focuses on that priority, looking especially at the role of the federal government, if any, in providing capital for that purpose.

The committee also heard from Canadian witnesses who have researched, created and/or administered social finance funds, along with two experts from outside Canada, one from the United States and one from Australia. A complete list of witnesses is included as Appendix C.

CONTEXT

The federal government has been engaging with civil society and the private sector for several years, investigating whether and how the government could support social finance initiatives. Social finance is intended to bring private investment to social purpose. Social finance initiatives could include "pay-for-success" models in place of outright grants to fund programs, social procurement which would encourage civil society organizations to bid on government contracts, and/or contributing to a fund that could support civil society to innovate and create social enterprises.

In Budget 2011, the government introduced the idea of considering new funding approaches to community/government partnerships;[2] Budget 2012 stated further that the government would explore social finance instruments to support such partnerships[3] and Budget 2014

[1] Employment and Social Development Canada, *Social Innovation and Social Finance Strategy Co-Creation Steering Group*.

[2] Government of Canada, *The Next Phase of Canada's Economic Action Plan: A Low-tax Plan for Jobs and Growth* (Economic Action Plan 2011), p. 132.

[3] Government of Canada, *Jobs Growth and Long-term Prosperity: Economic Action Plan 2012*, 29 March 2012, p. 173.

committed the government to continuing collaboration with private and not-for-profit sectors in this exploration.[4]

In Budget 2015, the government announced "the implementation of a social finance accelerator initiative to help develop promising social finance proposals."[5] This initiative was intended "to help promising social finance proposals become investment-ready, attract private investment and turn social entrepreneurs' proposals into action," and to "help to fast-track promising social finance ventures to a greater stage of investment readiness."[6] That call for proposals identified "social finance investment funds" as an example of a "social finance tool."[7]

In November 2015[8] and again in September 2016,[9] the mandate letter from the Prime Minister to the Honourable Jean-Yves Duclos, Minister of Families, Children and Social Development, directed him to "[w]ork with the Minister of Employment, Workforce Development and Labour to develop a Social Innovation and Social Finance strategy." The Minister announced the creation of the Co-Creation Steering Group described above, whose report is anticipated in May 2018.

BACKGROUND

Social finance can be described as an investment made for the purposes of achieving a beneficial and quantifiable impact on society and/or the environment; and an economic return. The title of the report of the federally appointed Task Force on Social Finance provided a shorter description: "mobilizing private capital for public good."[10] Social finance is closely related to "***impact investing***," which is defined by the TD Bank as "a range of finance and investment approaches that have the goal of generating both financial return and benefit to society."[11] The term is sometimes used interchangeably with social finance, particularly by investors. Social finance is distinct from gifts and donations made to registered charities, since the impact of such gifts and donations are usually not quantified and do not result in a financial return for the donor.

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[4] Government of Canada, *The Road to Balance: Creating Jobs and Opportunities* (Economic Action Plan 2014), 11 February 2014, p. 215.

[5] Government of Canada, *Strong Leadership: A Balanced-budget, Low-tax Plan for Jobs, Growth and Security* (Economic Action Plan 2015), 21 April 2015, p. 271

[6] Employment and Social Development Canada, *Social Finance*.

[7] *Ibid*. In the same time period, three Standing Committees in the House of Commons undertook studies related to social finance; their findings are summarized in a Library of Parliament background paper, *Government of Canada and Social Finance*, published in December 2015.

[8] Prime Minister of Canada, *Minister of Families, Children and Social Development Mandate Letter*, 12 (November 2015.

[9] Prime Minister of Canada, *Minister of Families, Children and Social Development Mandate Letter*, 1 September 2016.

[10] Canadian Task Force on Social Finance, *Mobilizing Private Capital for Public Good*, December 2010.

[11] TD Bank, *The Landscape for Social Impact Investing – a White Paper*, March 2013.

Investments can take the form of a short- to medium-term loan, bond, mortgage or venture capital investment to service providers, such as registered charities, not-for-profit organizations, co-operative corporations or social enterprises[12] that deliver social and environmental services.[13]

While social finance is not a new concept, its specific application to social challenges traditionally funded by the public sector is a more recent phenomenon. As described by one witness, "Social enterprises are not new, but they are more and more considered as one of the key players in the matter of finding innovative ways of addressing social and environmental issues."[14]

It has been argued that the intractable nature of such challenges and fiscal constraint have created a gap that social finance can fill,[15] with new approaches for the development, implementation and funding of initiatives to tackle these challenges. The role of social finance in filling these gaps was described by one witness:

> [W]e have seen many examples of social innovations that test new solutions to these kinds of social problems. These include models for investing in social housing, funds that receive investment from retail investors to support social enterprises and affordable housing, and mechanisms integrated increasingly into government procurement that create opportunities for social enterprises and employment for people who have been excluded from the workforce and miss out on opportunities to participate and who also become a significant burden from a taxpayer's perspective.[16]

In discussions about social finance, there are frequent references to ***supply and demand***; in a "white paper" on social finance, the Royal Bank of Canada (RBC) described the supply and demand sides of social finance as follows:

> Like traditional financial markets, the impact investing marketplace includes those who supply capital, those who demand capital, and intermediaries and enablers. Impact investors supply the capital that funds projects, programs and businesses that deliver solutions to social and environmental problems. Impact investors can include

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[12] A social enterprise is an organization or venture that achieves socially desirable goals by using traditional business models. For a summary, see: Susan Manwaring and Andrew Valentine, "Social Enterprise in Canada," *The 2012 Lexpert/American Lawyer Guide to the Leading 500 Lawyers in Canada*, Thomson Reuters Canada Limited, January 2012.

[13] Canadian Task Force on Social Finance, *Mobilizing Private Capital for Public Good*, December 2010.

[14] Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 14 February 2018 (Marie J. Bouchard, full professor, École des sciences de la gestion, Université du Québec à Montréal, as an individual.)

[15] For example, see: Ele Pawelsky, "Challenges to Implementing Social Finance Policy in Canada," *The Philanthropist*, 5 May 2015 and John C. Williams, "Letting Investors Take a Shot at Curing Social Ills, " *The Wall Street Journal*, 23 September 2014.

[16] Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 14 February 2018 (James Tansey, Executive Director, Centre for Social Innovation and Impact Investing).

> governments, individuals, foundations, banks and pension funds. The demand side of the market includes companies in myriad sectors, non-profits and charities, cooperatives, and projects that need capital to open, operate or expand activities.[17]

Witnesses explained that most organizations, particularly in the charitable and non-profit sectors, need more funds, particularly for experimenting with new approaches or to expand or "scale up" a successful pilot project to become a broader practice; however, they are not usually experts in putting together the business plan needed to persuade investors to provide those funds. At the same time, many investors are not experts at determining the level of risk in a proposal that might come from the charity or non-profit organization and may operate at a level or "scale" that invests large amounts rather than the more modest amount required. Social finance funds act as intermediaries to bridge these divides.

As described by one witness, there is need for a "financing **ecosystem,**" that supplies the 'interface" between supply and demand. As described by another witness, social finance – including social finance funds – is part of an ecosystem "that builds a constituency, builds leadership, embraces innovation, builds the capacity in the social and public sector organizations to experiment, learns from failures and ensures that successful interventions can be translated and scaled into programs."[18]

Witnesses before the committee described particular kinds of social finance funds, sometimes using Canadian and international examples. Some examples are highlighted below.

SOCIAL FINANCE FUNDS

Different social finance funds can serve different purposes. James Tansey suggested that there are two types of funds. One "helps mature social enterprises and charities to expand their programs and to invest in property and real estate or free up equity from real estate or provide subsidies to affordable housing." [19] Although these funds are considered less risky investments, charities and non-profits are prevented from investing in them by regulatory constraints that make them ineligible for conventional financing or by investors' assessment of the risk as too high.

A second kind of fund is a "seed fund model", described as being "much more explicitly a blend of philanthropic capital and donations where the assumption is that the majority won't succeed and won't grow, but the combination of charitable donations and tax credits can

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17 Royal Bank of Canada (RBC), *Financing Social Good: A Primer on Impact Investing in Canada*, An RBC Social Finance White Paper, July 2014.

18 Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 14 February 2018 (James Tansey, Executive Director, Centre for Social Innovation and Impact Investing).

19 Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 14 February 2018 (James Tansey, Executive Director, Centre for Social Innovation and Impact Investing).

mean that the investor gets 70 per cent of their costs back."[20] These are also described as **early-stage funds**, **first-loss funds** or venture capital funds.

According to a primer on early-stage impact investments, such funding encompasses "a diverse set of opportunities across sectors, geographies, impact strategies, and financial return profiles."[21] It identifies some common characteristics of such investments: high risk, long time horizons for returns on investments, and a "maturing track record," as "there is limited historical data on the financial returns of impact venture capital funds."[22]

The committee heard that the absence of funding that tolerates more risk and a longer repayment time horizon can act as a significant barrier to the development of the social finance sector and those seeking such funding. The committee also heard that the availability of early-stage funding has had positive effects, including the expansion of programs beyond their initial scope to successfully creating social enterprises offering employment opportunities to clients of the initial program. Examples are included in Appendix 1, which lists programs and initiatives mentioned by witnesses in the course of this study.

> The Jasper Place Wellness Centre had its beginnings in an initial program developed by an experienced business person to provide a meeting place for marginalized people with some health service supports. To create employment opportunities, a hauling business was started. Noting that they were hauling a lot of mattresses, the emerging organization sought funding from the Social Enterprise Fund in Edmonton to create a mattress-recycling business, also creating employment opportunities for its earliest program participants and others.

As noted by one witness, charitable foundations are well-positioned to take the risks associated with early investments in new initiative and programs, since they are required by law to give money away. It was also noted, in testimony and in a written submission from Philanthropic Foundations Canada, that only other registered charities can receive donations

[20] Ibid.

[21] The ImPact, *Early-Stage Impact Investing: A Primer for Families*, April 2016, p. 3.

[22] Ibid., pp. 3-5.

from foundations under current law. To permit foundations to invest more of their capital reserves, the federal government, through the Canada Revenue Agency, would be required to clarify and perhaps amend regulations with respect to program-related investment.

For private-sector investors, the committee heard, it is important that the higher level of risk and/or the longer term investment be rewarded with higher returns or be insured against losses by public or charitable funding. Further, the committee heard that private-sector investors would want to own only about 10% of any single social finance fund, so as to minimize the risk of any one investment.[23]

In testimony and written submissions, the committee heard about social finance funds within Canada, and of social finance funds in other countries. Most benefit from charitable, private and government investors, and provide support to both established organizations and to first-time initiatives.

A. Social Finance Funds in Canada

One witness described the Canadian landscape as follows: "[A]cross the country, there are existing examples at various different scales of best practice with respect to social finance and social innovation, particularly some of these funding intermediaries providing new ways of providing capital to Canadian social enterprises and social ventures."[24]

A 2011 compendium of Canadian impact investment funds identified the particular groups that had begun to provide capital: high net worth individuals,[25] community finance organizations, charitable foundations, chartered banks and credit unions.[26] A later compilation (2014) describes different types of "social finance investment funds," defined as "a Canadian-based entity or program operated by a Canadian entity." That entity must also meet the following conditions:

- "Has an established capital base
- Provides capital to generate market-based or concessionary financial returns and measurable social and/or environmental returns
- Invests primarily in non-publicly traded Canadian enterprises [and]
- Provides publicly accessible reports on its activities."[27]

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23 Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 15 February 2018 (Derek Ballantyne, Managing Partner, New Markets Fund).,

24 Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 14 February 2018 (James Tansey, Executive Director, Centre for Social Innovation and Impact Investing).

25 High net worth individual is defined as "those with over US$1 million in investable assets." Ibid., p. 7.

26 Karim Harji and Joanna Reynolds, State of the Nation: Impact Investing in Canada, MaRS Centre for Impact Investing and Purpose Capital, 2011, pp. 19–20.

27 New Market Funds, with contributions from other social finance funds and organizations, *Eight Tracks: Impact Investing in Canadian Communities*, 2014, p. 6.

The same compendium identifies subsidization of social finance funds, from charitable foundations, financial co-operatives and governments "at all levels."[28] See Table 1 below for examples of existing social finance funds in Canada, and the contributors to those funds.

Table 1 – Examples of Social Finance Funds and Contributors

Name of Fund	Type of Fund	Initiator	Contributors to Fund			
			Governments	Foundations	Credit Union/ Banks	Private Investors
Youth Catalyst Fund	Grants for youth-involved social enterprises	Community Foundations of Canada	Ontario Social Enterprise Demonstrat-ion Fund	TK Foundation Local community foundations		
Community Forward Fund	Loans to non-profit organizations	Interested individual	Ontario Trillium Foundation	Local community foundations	Represented on Board	
Social Enterprise Fund	Loans to social enterprises	Edmonton Community Foundation and City of Edmonton		United Way of Edmonton		Alberta Real Estate Board
RBC Generator	$10 M pool for capital investments with view to financial, social and environmental returns					RBC
Resilient Capital	Debt and equity investments in social enterprises	VanCity and Vancouver Foundation		Vancouver Foundation	VanCity administrat-ion	Long-term depositers with VanCity

[28] Ibid., p. 14.

Name of Fund	Type of Fund	Initiator	Contributors to Fund			
			Governments	Foundations	Credit Union/ Banks	Private Investors
Social Capital Partners	Venture philanthropy and social investment models seeking better solutions to accessible employment for the disadvantaged	Bill Young	Ontario government in Rate Drop Rebate Program		RBC for community employment loans	Bill Young
Chantier de l'économie sociale Trust	Loans with a 15-year capital repayment moratorium for social enterprises.	Chantier de l'économie sociale	Quebec government and Economic Development Canada		Caisse d'économie solidaire Desjardins	Investissement Québec
New Market Funds Rental Housing Fund	Provide commitment for multi-family housing for moderate- and low-income families before construction financing	Six charitable organizations		Tides Foundation, the Michael Young Family Foundation, the J.W. McConnell Foundation		
Réseau d'investissement socil du Québec			Chantier de l'économie sociale and Investissement Québec	Fondation Béati		Unnamed

Source: Table prepared by the author using data obtained from hyperlinked sources in the table.

B. Social Finance Funds in Other Countries

The committee also heard about social finance funds in other countries. Antony Bugg-Levine, President of the Nonprofit Finance Fund in the United States (U.S.), described his own fund and its sources of funds, common to many other U.S. social investment funds. Rosemary Addis described Impact Capital Australia, an implementation plan proposed by a government-Australian Advisory Committee on Impact Investing for a "wholesale fund" in that country. A wholesale fund invests in other funds, rather than investing directly in program initiatives.

Mr. Bugg-Levine explained that the Nonprofit Finance Fund is a non-profit loan fund registered with the U.S. Treasury Department; its funds are often borrowings from U.S. banks and insurance companies that are tested by regulators under the 1977 *Community Reinvestment Act*.[29] The intent of that legislation, according to Mr. Bugg-Levine, was "to make sure that retail banks made loan capital available in poor communities," which they often do through one of approximately 1,300 community development financial institutions, of which the Nonprofit Finance Fund is one.

However, he noted that direct federal funding was also essential to its operations, since this funding provided the operational stability that banks desire and subsidized some of its investments as well. These subsidies come from the Community Development Financial Institutions Fund, which is described as "offering tailored resources and innovative programs that invest federal dollars alongside private sector capital."[30] Mr. Bugg-Levine concluded, "It's the combination of those two policies, one that motivates banks to lend to us and the other that helps us subsidize our operations, that makes this model work."[31]

Ms. Addis's involvement in social finance in Australia includes having chaired the Australian Advisory Board on Impact Investing, which describes engagement and collaboration with government as a "key area of focus" seeking to build "understanding of the role of Government as market facilitator and market participant, and [to] enable greater private investment..."[32] She reported that "there has definitely been a focus on impact funds and, in particular, wholesale funds. The reason for that is that we think they could be an effective mechanism to increase efficacy, including the efficacy of government spending against policy priorities."[33] Recommending the creation of a wholesale fund, she added:

> The impact wholesalers can have a really catalytic effect in stimulating scale in terms of helping to pump prime the intermediaries, and, as you heard in the questions in the previous session, if we are looking at a wholesale fund, what that really provides is a base with capital and a mandate and capacity to provide a long-term platform that can drive activity and unlock a critical mass of new capital and ways of doing things.[34]

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[29] For more information about the *Community Reinvestment Act*, see Federal Financial Institutions Examination Council, *Community Reinvestment Act*.

[30] For this and more information about the Fund, see US Department of the Treasury, *Community Development Financial Institutions Fund*.

[31] Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 14 February 2018 (Antony Bugg-Levine, President, Nonprofit Finance Fund).

[32] Australian Advisory Board on Impact Investing, *Accelerating Impact Investing Locally*.

[33] Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 14 February 2018 (Rosemary Addis, Chair and Executive Director, Impact Strategist, Australian Advisory Board on Impact Investing).

[34] Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 14 February 2018 (Rosemary Addis, Chair and Executive Director, Impact Strategist, Australian Advisory Board on Impact Investing).

Several witnesses also referred to Big Society Capital, the United Kingdom social finance fund, which was initially funded by dormant bank accounts. It is a £ 625 million fund, established in 2012, which operates as a wholesale fund that "sometimes invests on concessionary terms. For example, at a lower interest rate, over a longer period or at a smaller size than would a bank or other mainstream investor"[35]. On the negative side, one witness noted that the fund has money remaining that has not been invested, creating "frustration among some about sitting on the money for quite a while."[36]

Other funds and initiatives mentioned by witnesses are listed in Appendix A.

THE PROPOSED ROLE OF THE FEDERAL GOVERNMENT

Although witnesses had different ideas about how the federal government should participate in creating a social finance fund, they were united in their belief that government involvement is instrumental in the creation, growth and sustainability of a social finance market in Canada. Witnesses identified gaps in the social finance "ecosystem" across Canada, noting that some communities were under-served, especially First Nation communities, and that smaller communities and areas with lower populations were less likely to develop the ecosystem without government intervention, ideally at the federal level. Witnesses saw the government as "instrumental" in supporting existing ecosystems and helping to create newer ones as needed.

> "There is ... a need for a support environment in which social innovators, social finance institutions and government can work together. Such "ecosystems" are emerging in many parts of Canada."[37]

Witnesses also widely agreed that federal funding should reduce the risk for private investors by guaranteeing loans to organizations seeking funds, whether to cover "first losses" on particularly innovative and untested approaches, or to seed a fund that could then draw in

[35] Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 15 February 2018 (Duncan Farthing-Nichol, Manager, Research and Advisory, MaRS Centre for Impact Investing). For more information see Big Society Capital.

[36] Ibid.

[37] Standing Senate Committee on Social Affairs, Science and Technology, *Evidence*, 42nd Parliament, 1st Session, 14 February 2018 (Marie J. Bouchard, full professor, École des sciences de la gestion, Université du Québec à Montréal, as an individual.)

other funding organizations. At the same time, they said, federal funding "signals" confidence in social finance to other investors.

They proposed that the federal government should create or contribute to a "wholesale" fund, which invests in other funds, rather than investing directly in organizations or projects seeking funding. These funds, as described above, serve as intermediaries between large-scale and other investors on one hand, and a specific investment on the other. Witnesses also identified the importance of federal funding for 'scaling' purposes, which is to allow social finance funds to grow to a size that is required by large-scale private investors and to support indirectly charities and non-profit organizations to expand their programs.

Witnesses proposed that the federal fund should support both existing social finance funds and new or emerging funds in geographic and other communities that are not currently served. The committee heard that working in communities that need support but have not developed any expertise in meeting those needs through social enterprises, would require a greater investment in building that expertise and capacity and in guaranteeing loans for early initiatives.

The committee heard about a success story among the Huron-Wendat in Quebec. They started with a decision to put federal government transfers for housing into a community loan fund, which has made more than 400 housing loans at 7% interest, with a less than 2 % default rate. Through a First Nations owned and managed non-profit called ABSCAN, they have raised more than $35 million in a housing loan fund. Government, foundations and band funding have contributed to replication in four communities.

When asked about the level of federal funding they would recommend, witnesses called for a substantial investment with a strong commitment over time, to allow existing and new social finance funds to leverage funds from other investors. On the other hand, based on the experience of Big Society Capital in the United Kingdom, the committee was advised that the government should not over-invest at the beginning, leaving capital unspent in the early days of the fund, and possibly encouraging inefficiencies as existing intermediaries mature and new ones emerge.

The committee heard that the fund should also operate at arms' length from government; all witnesses stated that the flexibility and risk-taking necessary is not possible within existing government departments. Witnesses also suggested that while the fund would require a well-defined purpose, it would also need the flexibility to raise additional funding from a diverse set of investors with some creative arrangements to do so.

With respect to structure, it was acknowledged that a crown agency structure might provide the necessary room for a social finance fund to operate effectively. Without proposing a precise model, more witnesses called for federal presence "at the table" with other investors and those operating the fund; this would provide accountability and results, without hampering the creativity needed to build and sustain a social finance fund. With a direct investment in a social finance fund, witnesses explained, the federal government would be well-positioned to convene all the partners in the social finance ecosystem and to support a policy environment that encourages paying for successes and innovative approaches.

RECOMMENDATIONS

The witnesses all described the importance of federal participation in a social finance fund, and its value to the government's own agenda.

> *We think a government-backed social finance fund could help lift Canada's social organizations to a size and scale that matches the problems they seek to solve.*
>
> Duncan Farthing-Nichol, Manager, Research and Advisory, MaRS Centre for Impact Investing

The committee also heard that a clear focus for a government-funded social finance fund is critical to its success.

> *Please be clear about your intention of outcome. What do you want done? I need to know what my investors need accomplished and want to see done in community. That's really important from your point of view, to be able to define what you want to have as the end result.*
>
> Jane Bisbee, Executive Director, Social Enterprise Fund

Similarly, the witnesses proposed that the best value for a federal investment would come from establishing or participating in a wholesale fund, committed to investing in existing and emerging social finance funds rather than funding individual organizations or initiatives. They also suggested that this fund be held accountable for results through government

participation in the governance of the fund. Further, it would be important that government participation not inhibit the fund's flexibility to be creative in how it raises funds from investors and how it funds particular initiatives. Providing this flexibility, they agree, would require that such a fund operate at arm's length from the federal government.

Recommendation 1

The committee recommends that the federal government create and contribute to a pan-Canadian social finance fund. The fund would operate at arm's length from the government, thus not constraining how funds are raised or spent, other than to determine its purpose and to establish accountability mechanisms for its contribution.

The signaling effect of [government] collaboration and commitment can be critical in instilling confidence and ensuring that impact investment initiatives, and, in particular, things like wholesale funds, can operate as public good that can help to grow the pie and develop capacity that can have a much wider impact.

Rosemary Addis, Chair and Executive Director,
Impact Strategist, Australian Advisory Board on Impact Investing

Government funding was described as offering a "signal" to other investors – public, private and non-profit – of the stability of a given fund. More specifically, federal funding should be used to leverage funding from these other sources and to attract investors who might join in programs of particular interest to the federal government.

Recommendation 2

The committee recommends that when assessing where to invest federal money in a social finance fund, the government look for opportunities to leverage funds from other investors.

The committee heard that Big Society Capital, the United Kingdom's social finance fund, was seeded with funds from moribund bank accounts.

We think government may want to look at the dormant bank accounts as a place for capital that could be put to higher public purpose. As they have done in the U.K. and are about to do in Japan and other countries, that capital can go to work and bring in private sector capital.

Stephen Huddart, President and Chief Executive Officer,
The McConnell Foundation

Recommendation 3

The committee recommends that the federal government explore the use of dormant bank accounts as their basis of capital for the social finance fund.

The committee heard that a publicly funded social finance fund could be used to encourage the development of new social finance funds intended to support groups and communities in Canada that are often geographically remote and/or socially and economically marginalized, e.g., Indigenous peoples and communities of people who are racial minorities.

Recommendation 4

The committee recommends that a portion of the federal contribution to a social finance fund be targeted to the development of new intermediary funds that will provide economic and social opportunities to traditionally marginalized regions and communities.

Further, witnesses explained that such communities will need additional capacity-building support to participate fully in opportunities created by a social finance fund.

Recommendation 5

The committee recommends that the fund support institutional capacity building to ensure that organizations are capable of participating in the social finance ecosystem.

Witnesses discussed what level of funding would be sufficient to send the desired signal while giving intermediaries time to emerge and/or mature and permitting the evidence of investment results to build. They proposed a longer term commitment with "patient" funding flowing in fixed amounts over that time.

I'm suggesting an initial investment and then subsequent investments, which could be annualized, but make them contingent on making sure the outcomes that were initially sought, whether it's on the basis of leverage, whether it's seeing growth in particular sectors.

Derek Ballantyne, Managing Partner, Newmarket Funds

Recommendation 6

The committee recommends that the federal government make a multi-year commitment to a social finance fund, with fixed amounts flowing periodically over those years, and that the government anticipate a longer time to offer returns.

CONCLUSION

The committee sought advice on the role of the federal government, if any, in supporting the creation of a social finance fund. The witnesses that appeared over two days of hearings included operators of social finance funds in Canada and elsewhere, contributors to such funds, and members of the government-established Co-Creation Steering Group that have considered this among other elements of a social finance strategy.

There was consensus among witnesses that the federal government could play a pivotal role in participating in the creation of a wholesale social finance fund. Its participation, witnesses explained, would contribute to many positive outcomes; these include drawing in other investors, providing support to its own priorities, and assisting social enterprises, including those created by charities and non-profits, to address social needs with innovative solutions with financing from a range of investors.

APPENDIX A – FUNDS AND INITIATIVES IDENTIFIED BY WITNESSES

Program/initiative	Summary of its connection to social finance
Blackrock	A large international fund management company, with large and small investors. In 2018, the annual letter from Blackrock's Chief Executive Officer (CEO) to other CEOs was entitled A Sense of Purpose and highlighted the importance of " a company's ability to manage environmental, social, and governance matters" as a demonstration of a company's "leadership and good governance"; he noted that Blackrock was "increasingly integrating these issues into [its] investment process.
Bridges Fund Management	The founding mission of the United Kingdom-based Bridges Impact Foundation was "to raise investment vehicles that target both societal and financial returns." The Foundation owns 30% of the fund management company, and is funded by the "senior team, who donate 10% of their profits from our other investment vehicles."
BUILD Retrofit	BUILD is a non-profit contractor operating as a social enterprise in Manitoba, and is a "training program for people who face barriers to employment." Its mission is to empower "multi-barriered people by providing skills training and employment opportunities," and is funded through provincial government program funds and revenues from maintenance and renovation of apartments, and from providing insulation services though a provincial energy-affordability program.
CommonGood	CommonGood is an Alberta-based social enterprise providing custom linen and laundry services and "employment mentorship to people facing barriers."
Edmonton Community Development Corporation	With the support of Edmonton's Social Enterprise Fund, this organization seeks to promote the renewal of distressed neighbourhoods" using tools including "residential and

Program/initiative	Summary of its connection to social finance
	commercial real estate development, business development, job training and neighbourhood beautification."
Global Energy Efficiency and Renewable Energy Fund	This "fund of funds" invests in private equity funds "which focus on renewable energy and energy efficient projects in emerging markets." It was initiated by the European Union, with additional funding from Germany and Norway; this has been supplemented by approximately twice as much financing from private-sector investors.
Innovation Works London	Innovation Works, in London, Ontario, services as a "co-working space for social innovators" that provides desk space, meeting space, and shared office amenities. It is intended to bring together entrepreneurs, businesses, government, non-profits and charities to foster new and innovative partnerships and initiatives. It was funded in part by the offering of a community bond.
Jasper Place Wellness Centre	This Edmonton based community development organization focusses on five areas: health care, employment, food security, education and housing. It offers a community health centre, monthly produce markets, and five social enterprise businesses. These include Redemptive Developments, an employment program which seeks to "offer entry level labouring employment," and pays participants a living wage. It does this through 4 Good Homes Services, which provides moving, cleaning, junk removal and mattress recycling to local residents.
Real Lettings Property Fund	Based in London, UK, this social rental agency seeks "to help secure homes for vulnerably housed and homeless people in the private sector." It offers investors "a risk adjusted return", and uses the funds to purchase properties "for single people and families who are formerly homeless or at risk of

Program/initiative	Summary of its connection to social finance
	homelessness. It acts as a landlord for tenants, and also provides "personalised coaching and support for tenants."
St. Paul Abilities Network	Having started as a charity to support children with disabilities, over the more than 40 years since its founding, the network has expanded beyond the first school it developed in northern Alberta to offer accessible housing and workplaces for persons with disabilities. It became involved in social enterprises to "to insulate ourselves from the changes in government revenue and funding; find a way to generate sustainable revenue, and provide the best available support to people with special needs in the region." Its social enterprises include property management services, plumbing and heating services, and a local hotel.

APPENDIX B: LIST OF RECOMMENDATIONS

Recommendation 1

The committee recommends that the federal government create and contribute to a pan-Canadian social finance fund. The fund would operate at arm's length from the government, thus not constraining how funds are raised or spent, other than to determine its purpose and to establish accountability mechanisms for its contribution.

Recommendation 2

The committee recommends that when assessing where to invest federal money in a social finance fund, the government look for opportunities to leverage funds from other investors.

Recommendation 3

The committee recommends that the federal government explore the use of dormant bank accounts as their basis of capital for the social finance fund.

Recommendation 4

The committee recommends that a portion of the federal contribution to a social finance fund be targeted to the development of new intermediary funds that will provide economic and social opportunities to traditionally marginalized regions and communities.

Recommendation 5

The committee recommends that the fund support institutional capacity building to ensure that organizations are capable of participating in the social finance ecosystem.

Recommendation 6

The committee recommends that the federal government make a multi-year commitment to a social finance fund, with fixed amounts flowing periodically over those years, and that the government anticipate a longer time to offer returns.

APPENDIX C: LIST OF WITNESSES

Wednesday, February 14, 2018	
Centre for Social Innovation and Impact Investing	James Tansey, Executive Director
The McConnell Foundation	Stephen Huddart, President and Chief Executive Officer
Australian Advisory Board on Impact Investing	Rosemary Addis, Chair and Executive Director, Impact Strategist
Nonprofit Finance Fund	Antony Bugg-Levine, President
As an individual	Marie J. Bouchard, full professor, Université du Québec à Montréal
Thursday, February 15, 2018	
New Market Funds	Derek Ballantyne, Managing Partner
Vancity	Christine Bergeron, Executive Lead, Impact Investment
Philanthropic Foundations Canada	Hilary Pearson, President
Social Enterprise Fund	Jane Bisbee, Executive Director
MaRS Centre for Impact Investing	Duncan Farthing-Nichol, Manager, Research and Advisory

APPENDIX D: BRIEFS

- Bouchard, Marie
- MaRS Centre for Impact Investing
- The McConnell Foundation
- Philanthropic Foundations Canada
- Social Enterprise Fund